7. Conclusions

Having considered the projected mortgage market serving low- and moderate-income families, economic, housing and demographic conditions for 2005–08, and the GSEs' recent performance in purchasing mortgages in underserved areas the Secretary has determined that the annual goal of 37 percent of eligible units financed in 2005, 38 percent in 2006 and 2007, and 39 percent in 2008 is feasible. The Secretary has also established a subgoal of 32 percent for the GSEs' purchases of single-family-owner mortgages in metropolitan areas for 2005, rising to 33 percent in 2006 and 2007 and 34 percent in 2008. The Secretary has considered the GSEs' ability to lead the industry as well as the GSEs' financial condition. The Secretary has determined that the goals and subgoals are necessary and appropriate.

Appendix C—Departmental Considerations To Establish the Special Affordable Housing Goal

A. Introduction

1. Establishment of the Goal

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) requires the Secretary to establish a special annual goal designed to adjust the purchase by each GSE of mortgages on rental and owner-occupied housing to meet the unaddressed needs of, and affordable to, low-income families in low-income areas and very-low-income families (the Special Affordable Housing Goal).

In establishing the Special Affordable Housing Goal, FHEFSSA requires the Secretary to consider:

1. Data submitted to the Secretary in connection with the Special Affordable Housing Goal for previous years;
2. The performance and efforts of the GSEs toward achieving the Special Affordable Housing Goal in previous years;
3. National housing needs of targeted families;
4. The ability of the GSEs to lead the industry in making mortgage credit available for low-income and very-low-income families; and
5. The need to maintain the sound financial condition of the enterprises.

2. The Goal and Subgoals

Special Affordable Housing Goal. The rule provides that the Special Affordable Housing Goal will be 22 percent in 2005, 23 percent in 2006, 25 percent in 2007, and 27 percent in 2008.

Units That Count Toward the Goal. Units that count toward the Special Affordable Housing Goal include units occupied by low-income owners and renters in low-income areas, and very low-income owners and renters. Other low-income rental units in multifamily properties count toward the goal where at least 20 percent of the units in the property are affordable to families whose incomes are 50 percent of area median income or less, or where at least 40 percent of the units are affordable to families whose incomes are 60 percent of area median income or less.

Multifamily Subgoal. HUD has established a special affordable subgoal for GSE purchases of multifamily mortgages. This subgoal is expressed in terms of a minimum annual dollar volume of multifamily mortgage purchases for units qualifying for the goal, rather than as a percentage of total units financed, as for the three housing goals. Both GSEs have consistently surpassed the multifamily subgoal since its establishment in 1996. The rule increases the subgoal such that, of the total Special Affordable mortgage purchases each year, each GSE must purchase special affordable multifamily mortgages in dollar amount equal to at least 1 percent of its combined (i.e., single-family and multifamily) annual average mortgage purchases over the 2000–2002 period. The level of this subgoal is $5.49 billion per year for Fannie Mae and $3.92 billion per year for Freddie Mac.

Single-Family-Owner Home Purchase Subgoal. The Department is establishing a subgoal of 17 percent for the share of each GSE's purchases of single-family-owner home purchase mortgages that qualify as special affordable and are originated in metropolitan areas in 2005 and 2006, with the subgoal rising to 18 percent in 2007 and 2008.

B. Consideration of the Factors

In considering the factors under FHEFSSA to establish the Special Affordable Housing Goal, HUD relied upon data gathered from the American Housing Survey through 2001, the Census Bureau's 1991 and 2001 Residential Finance Surveys, the 1990 and 2000 Censuses of Population and Housing, Home Mortgage Disclosure Act (HMDA) data for 1992 through 2003, and annual loan-level data from the GSEs on their mortgage purchases through 2003. Appendix D discusses in detail how these data resources were used and how the size of the conventional conforming market for this goal was estimated.

The remainder of Section C discusses the factors listed above, and Section D provides the Secretary's rationale for establishing the Special Affordable Housing Goal.

Factors 1 and 2. Data submitted to the Secretary in connection with the Special Affordable Housing Goal for previous years, and the performance and efforts of the enterprises toward achieving the Special Affordable Housing Goal in previous years.

The discussions of these two factors have been combined because they overlap to a significant degree.

This section discusses each GSE's performance under the Special Affordable Housing Goal over the 1996–2003 period.[1] As explained in Appendix A, the data presented are ''official HUD results'' which, in some cases, differ from goal performance reported by the GSEs in the Annual Housing Activities Reports (AHARs) that they submit to the Department.

The main finding of this section is that both Fannie Mae and Freddie Mac surpassed the Department's Special Affordable Housing Goals for each of the seven years during this period. Specifically:

- The goal was set at 12 percent for 1996; Fannie Mae's performance was 15.4 percent and Freddie Mac's performance was 14.0 percent.
- The goal was set at 14 percent for 1997–2000. Freddie Mac's performance was 15.2 percent in 1997, 15.9 percent in 1998, 17.2 percent in 1999, and 20.7 percent in 2000; and Fannie Mae's performance was 17.0 percent in 1997, 14.3 percent in 1998, 17.6 percent in 1999, and 19.2 percent in 2000.
- In HUD's Housing Goals 2000 Final Rule, the special affordable goal was set at 20 percent for 2001–03. As of January 1, 2001, several changes in counting requirements took effect for the special affordable goal, as follows: ''bonus points'' (double credit) for purchases of goal-qualifying mortgages on small (5–50 unit) multifamily properties and, above a threshold level, mortgages on 2–4 unit owner-occupied properties; a ''temporary adjustment factor'' (1.20 units credit, subsequently increased by Congress to 1.35 units credit) for Freddie Mac's purchases of goal-qualifying mortgages on large (more than 50-unit) multifamily properties; changes in the treatment of missing data; a procedure for the use of imputed or proxy rents for determining goal credit for multifamily mortgages; and changes regarding the ''recycling'' of funds by loan originators. These changes are explained below. Fannie Mae's performance was 21.6 percent in 2001, 21.4 percent in 2002, and 21.2 percent in 2003. Freddie Mac's performance was 22.6 percent in 2001, 20.4 percent in 2002, and 21.4 percent in 2003. Both GSEs surpassed this higher goal in all years. This section discusses the October 2000 counting rule changes in detail and provides data on what goal performance would have been in 2001–03 without these changes.[2]

In addition, HUD has established a special affordable subgoal for GSE purchases of multifamily mortgages. This subgoal is expressed in terms of a minimum annual dollar volume of multifamily mortgage purchases for units qualifying for the goal, rather than as a percentage of total units financed, as for the three housing goals. As discussed below, both GSEs surpassed the multifamily subgoal in each of these years.

a. Performance on the Special Affordable Housing Goal in 1996–2003

HUD's Housing Goals 1995 Final Rule specified that in 1996 at least 12 percent of the number of units financed by each of the GSEs that were eligible to count toward the Special Affordable Housing Goal should qualify for the goal (that is, be for very low-income families or low-income families in low-income areas), and at least 14 percent should qualify in 1997–2000. HUD's October

[1] Performance for the 1993–95 period was discussed in HUD's Housing Goals 2000 Finale Rule.

[2] To separate out the effects of changes in counting rules that took effect in 2001, this section also compares performance in 2001 to estimated performance in 2000 if the 2001 counting rules had been in effect in that year. Freddie Mac's goal performance in 2002 has been revised due to coding errors that were discovered in HUD's review of 2002 data, as discussed in HUD's press release No. 04–105, October 15, 2004.

2000 rule made various changes in the goal counting rules, as discussed below, and increased the Special Affordable Housing Goal to 20 percent for 2001–03.

In the December 1995 rule, the minimum special affordable multifamily subgoals for 1996–2000 were set at 0.8 percent of the total dollar volume of each GSE's mortgage purchases in 1994, or $1.29 billion annually for Fannie Mae and $0.99 billion annually for Freddie Mac. These subgoals were increased for 2001–03 in the October 2000 rule, to $2.85 billion annually for Fannie Mae and $2.11 billion annually for Freddie Mac, or 1.0 percent of the average dollar volume of each GSE's mortgage purchases over the 1997–99 period.

Table C.1 and Figure C.1 show performance on the special affordable goal and the special affordable multifamily subgoal over the 1996–2003 period, based on HUD's analysis. The table shows that Fannie Mae surpassed the goals by 3.4 percentage points and 3.0 percentage points in 1996 and 1997, respectively, while Freddie Mac surpassed the goals by narrower margins, 2.0 and 1.2 percentage points. In 1998 Fannie Mae's performance fell by 2.7 percentage points, while Freddie Mac's performance continued to rise, by 0.7 percentage point, thus for the first time Freddie Mac outperformed Fannie Mae on this goal. Freddie Mac showed a gain in performance to 17.2 percent in 1999, while Fannie Mae exhibited an even greater gain, to 17.6 percent

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Table C.1

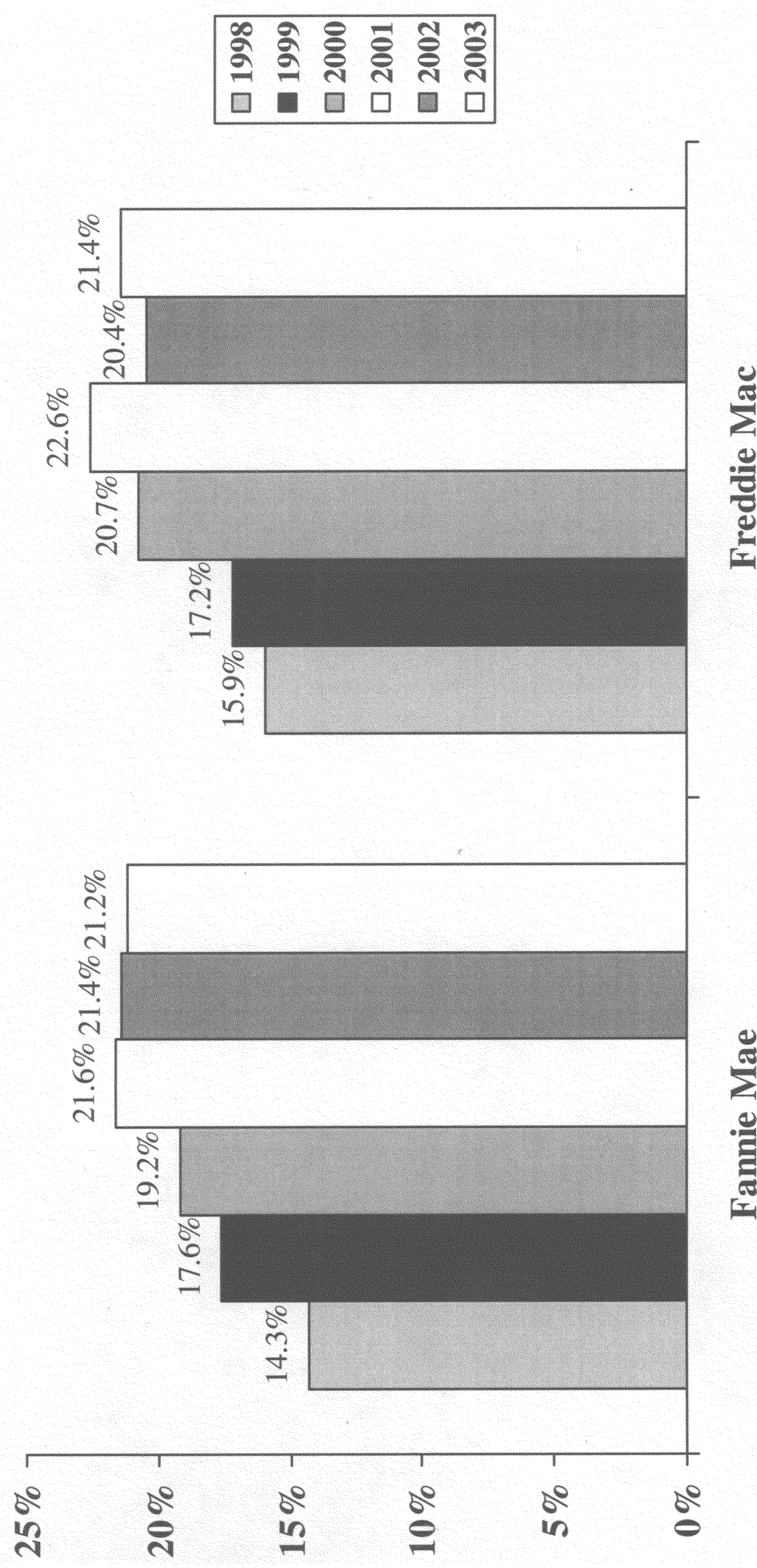
GSEs' Performance on Special Affordable Goal, 1996-2003

	1996	1997	1998	1999	2000	2001*	2002*	2003*
Special Affordable Goal	12%	14%	14%	14%	14%	20%	20%	20%
Multifamily Subgoal (in billions of $):								
Fannie Mae	$1.29	$1.29	$1.29	$1.29	$1.29	$2.85	$2.85	$2.85
Freddie Mac	$0.99	$0.99	$0.99	$0.99	$0.99	$2.11	$2.11	$2.11
Fannie Mae:								
Units Eligible to Count Toward Goal	1,852,233	1,748,044	3,486,040	2,935,075	2,138,166	4,541,473	5,849,381	9,370,512
Special Affordable Units	285,642	296,366	499,948	517,169	411,239	979,168	1,252,871	1,986,549
Percent Special Affordable	15.4%	17.0%	14.3%	17.6%	19.2%	21.6%	21.4%	21.2%
Special Affordable Multifamily Purchases	$2.37	$3.19	$3.53	$4.06	$3.79	$7.36	$7.57	$12.23
Ratio to Subgoal	1.84	2.47	2.74	3.15	2.94	2.58	2.66	4.29
Freddie Mac:								
Units Eligible to Count Toward Goal	1,299,589	1,175,271	2,658,174	2,228,906	1,580,868	3,238,781	4,242,046	5,457,195
Special Affordable Units	181,505	178,736	422,900	383,329	327,793	730,611	866,732	1,169,885
Percent Special Affordable	14.0%	15.2%	15.9%	17.2%	20.7%	22.6%	20.4%	21.4%
Special Affordable Multifamily Purchases	$1.06	$1.21	$2.69	$2.26	$2.40	$4.65	$5.22	$8.79
Ratio to Subgoal	1.07	1.22	2.72	2.28	2.42	2.20	2.47	4.17

* Performance in 2001-2003 not directly comparable with performance in 1996-2000 due to changes in goal counting rules, as discussed in text and shown in Table C.2. Freddie Mac's goal performance in 2002 has been revised due to coding errors that were discovered in HUD's review of 2002 data, as discussed in the preamble to this Final Rule.

Figure C.1

Special Affordable Mortgage Purchases



Special Affordable Goal was 14% of units financed for 1998-2000 and 20% for 2001-03.

Source: HUD analysis of GSEs' loan-level data. Due to changes in goal counting procedures in 2001, performance in 2001-03 is not strictly comparable with performance in 1998-2000, as discussed in text.

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Both GSEs exhibited sharp gains in goal performance in 2000—Fannie Mae's performance increased by 1.6 percentage points, to a record level of 19.2 percent, while Freddie Mac's performance increased even more, by 3.5 percentage points, which also led to a record level of 20.7 percent. Fannie Mae's performance was 21.6 percent in 2001, 21.4 percent in 2002 and 21.3 percent in 2003; Freddie Mac's performance was 22.6 percent in 2001, 20.4 percent in 2002, and 21.4 percent in 2003. However, as discussed below, using consistent accounting rules for 2000–03, each GSE's Special Affordable Housing Goal performance fell in every year from 2001 through 2003—in total, by 2 percentage points for Fannie Mae and 3.2 percentage points for Freddie Mac.

With regard to the special affordable multifamily subgoal, Fannie Mae's purchases have exceeded the subgoal by wide margins in all years, with performance ranging from 184 percent of the goal in 1996 to 315 percent of the goal in 1999. Fannie Mae's subgoal was more than doubled in the October 2000 rule, to a minimum of $2.85 billion in each year from 2001 through 2003, but its qualifying purchases amounted to $7.36 billion, or 258 percent of the goal, in 2001, and $7.57 billion, or 260 percent of the goal, in 2002; and $12.10 billion, or 425 percent of the subgoal, in 2003.

Freddie Mac has also exceeded its special affordable multifamily subgoals in every year, albeit by smaller margins than Fannie Mae. In 1996 Freddie Mac's special affordable multifamily mortgage purchases amounted to $1.06 billion, or 107 percent of the goal. This ratio rose to 122 percent in 1997, and exceeded 200 percent for each year from 1998 through 2000. Freddie Mac's subgoal was more than doubled in the October 2000 rule, to a minimum of $2.11 in each year from 2001 through 2003, but its qualifying purchases amounted to $4.65 billion, or 220 percent of the goal, in 2001; $5.22 billion, or 247 percent of the goal, in 2002; and $8.79 billion, or 417 percent of the subgoal, in 2003.

The official figures for Freddie Mac's special affordable goal performance presented above differ from the corresponding figures presented by Freddie Mac in its Annual Housing Activity Reports to HUD by 0.1–0.2 percentage point for 1996–2000, reflecting minor differences in the application of counting rules. The official figures for special affordable goal performance by both GSEs are the same as those submitted by the enterprises for both GSEs for 2001, and for Fannie Mae for 2002. However, for 1996–2000, HUD's official special affordable goal performance figures for Fannie Mae were approximately 1–3 percentage points lower than the corresponding figures reported by the enterprise. This was due to differences between HUD and Fannie Mae in the application of counting requirements applicable to purchases of portfolios of seasoned loans, based on a statutory requirement that the proceeds of such GSE purchases by the loan sellers should be ''recycled'' in order for the GSE to receive Special Affordable goal credit.[3] This discrepancy did not persist in 2001–02 because of a change in counting requirements, described below. And for 2002, HUD's official goal performance figure was 20.4 percent, somewhat below the figure of 20.6 percent submitted to the Department by Freddie Mac. For 2003, official performance on this goal for both GSEs was somewhat greater than that reported by the GSEs—official performance was 21.2 percent for Fannie Mae (as compared with 20.9 percent reported by Fannie Mae to the Department) and 21.4 percent for Freddie Mac (as compared with 20.3 percent reported by Freddie Mac to the Department).

Fannie Mae's performance on the Special Affordable Housing Goal surpassed Freddie Mac's in 1996–97. This pattern was reversed in 1998, as Freddie Mac surpassed Fannie Mae in goal performance for the first time, though by only 0.2 percentage point. This improved relative performance of Freddie Mac was due to its increased purchases of multifamily loans, as it re-entered that market, and to increases in the goal-qualifying shares of its single-family mortgage purchases. However, Fannie Mae again surpassed Freddie Mac in special affordable goal performance in 1999, 17.6 percent to 17.2 percent; Freddie Mac regained the lead in 2000, 20.7 percent to 19.2 percent. Freddie Mac's official performance also exceeded Fannie Mae's official performance in 2001, but this reflected a difference in the counting rules applicable to the two GSEs that was enacted by Congress; if the same counting rules were applied to both GSEs, Fannie Mae's performance would have exceeded Freddie Mac's performance, by 21.6 percent to 21.1 percent.

In 2002, Freddie Mac's performance on the special affordable goal was below Fannie Mae's performance (21.4 percent), even though Freddie Mac had the advantage of the Temporary Adjustment Factor (TAF), which did not apply to performance by Fannie Mae. Freddie Mac's performance would have trailed Fannie Mae's without this factor, and in fact Freddie Mac would have fallen short of the goal, at 19.3 percent. In 2003, Freddie Mac's performance (21.4 percent) slightly exceeded Fannie Mae's performance (21.2 percent), but this resulted from application of the TAF to Freddie Mac's performance—without this, Freddie Mac's performance would have been 20.2 percent, barely in excess of the 20 percent goal.

b. Changes in the Goal Counting Rules for 2001–03

Several changes in the counting rules underlying the calculation of special affordable goal performance took effect beginning in 2001. Most of these also applied to the low- and moderate-income goal and are discussed in Appendix A; only brief summaries of those changes are given here:

- *Bonus points for multifamily and single-family rental properties.* Each qualifying unit in a small multifamily property counted as two units in the numerator in calculating special affordable goal performance on all of the goals for 2001–03. And, above a threshold equal to 60 percent of the average number of qualifying rental units financed in owner-occupied properties over the preceding five years, each qualifying unit in a 2–4 unit owner-occupied property also counted as two units in the numerator in calculating goal performance.
- *Freddie Mac's Temporary Adjustment Factor.* Freddie Mac received a ''Temporary Adjustment Factor'' of 1.35 units of credit for each qualifying unit financed in ''large'' multifamily properties (*i.e.*, those with 51 or more units) in the numerator in calculating special affordable goal performance for 2001–03.[4] This factor did not apply to special affordable units in large multifamily properties whose mortgages were financed by Fannie Mae during this period.
- *Missing data for single-family properties.* The GSEs may exclude loans with missing borrower income from the denominator if the property is located in a below-median income census tract, subject to a ceiling of 1 percent of total owner-occupied units financed. The enterprises are also allowed to exclude single-family rental units with missing rental information from the denominator in calculating performance for the special affordable goal.
- *Missing data and proxy rents for multifamily properties.* If rent is missing for multifamily units, the GSEs may apply ''proxy rents,'' up to a ceiling of 5 percent of total multifamily units financed, in determining whether such units qualify for the special affordable goal. If such proxy rents cannot be estimated, these multifamily units are excluded from the denominator in calculating performance under these goals.
- *Change in ''recycling'' requirements.* Under Section 1333(b)(1)(B) of FHEFSSA, if a GSE acquires a portfolio of mortgages originated in a previous year (that is, seasoned mortgages) that qualify under the Special Affordable Housing goal, the seller must be ''engaged in a specific program to use the proceeds of such sales to originate additional loans that meet such goal'' and such purchases or refinancings must ''support additional lending for housing that otherwise qualifies under such goal'' in order to receive credit toward the goal. This has been referred to as the ''recycling requirement.'' The 2000 rule both clarified the conditions under which HUD would regard these statutory conditions to be satisfied and established certain categories of lenders that would be presumed to meet the recycling requirements. These included BIF-insured and SAIF-insured depository institutions that are regularly in the business of mortgage lending and which are subject to,

[3] During 1996–2000 Freddie Mac took steps to acquire representations and warranties from lenders to attest that they were ''recycling'' the proceeds from the sales of qualifying loans. Fannie Mae did not take such steps; rather, Fannie Mae excluded such loans from the denominator in making its own calculations of its special affordable goal performance. In 1996–2000 HUD counted all eligible loans in the denominator, and, in the absence of measures to verify ''recycling'' by Fannie Mae, did not award credit in the numerator of the special affordable goal for most of Fannie Mae's seasoned mortgage purchases.

[4] *See* Congressional Record, December 15, 2000, pp. H12295–96.

and have received at least a satisfactory Community Reinvestment Act performance evaluation rating under specified conditions.[5]

c. Effects of Changes in the Counting Rules on Goal Performance

Because of the changes in special affordable goal counting rules that took effect in 2001, direct comparisons between official goal performance in 2000 and 2001–03 are somewhat of an ''apples-to-oranges comparison.'' For this reason, the Department has calculated what performance would have been in 2000 under the 2001–03 rules; this may be compared with official performance in 2001–03—an ''apples-to-apples comparison.'' HUD has also calculated what performance would have been in 2001–03 under the 1996–2000 rules; this may be compared with official performance in 2000—an ''oranges-to-oranges comparison.'' These comparisons are presented in Table C.2.

Specifically, Table C.2 shows performance under the special affordable goal in three ways. *Baseline A* presents performance under the counting rules in effect for 1996–2000. *Baseline B* incorporates the technical changes in counting rules—changes in the treatment of missing data (including use of proxy rents), and changes in procedures related to the ''recycling'' requirement. *Baseline C* incorporates in addition to the technical changes the bonus points and, for Freddie Mac, the temporary adjustment factor. Baseline B corresponds to the counting approach used in this rule to take effect in 2005. Boldface figures under Baseline A for 1999–2000 and under Baseline C for 2001–03 indicate official goal performance based on the counting rules in effect in those years—*e.g.*, for Freddie Mac, 17.2 percent in 1999, 20.7 percent in 2000, 22.6 percent in 2001, 20.4 percent in 2002 and 21.4 percent in 2003.

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[5] The revised requirements are codified at 24 CFR 81.14(e)(4). The changes are discussed in detail in the rule preamble, 68 FR 65074–76 (October 31, 2000).

Table C.2

Effects of Counting Rule Changes on the GSEs' Performance on the Special Affordable Goal

GSE	Year	Baseline A*	Technical Changes[1]	Baseline B*	Bonus Points: Small MF[2]	Bonus Points: SF Rental[3]	Temporary Adjustment Factor (TAF)[4]	Baseline C*
Fannie Mae	1999	**17.6%**	0.8%	18.5%	0.2%	0.6%	NA	19.3%
	2000	**19.2%**	2.2%	21.4%	0.2%	0.5%	NA	22.2%
	2001	18.6%	1.6%	20.2%	0.4%	0.9%	NA	**21.6%**
	2002	18.6%	1.3%	19.9%	0.7%	0.9%	NA	**21.4%**
	2003	18.6%	0.6%	19.3%	1.0%	0.9%	NA	**21.2%**
	Change, 2002-03	0.0%	-0.7%	-0.6%	0.3%	0.0%	NA	-0.2%
Freddie Mac	1999	**17.2%**	0.2%	17.4%	0.1%	0.4%	1.3%	19.2%
	2000	**20.7%**	0.3%	21.0%	0.1%	0.6%	1.8%	23.4%
	2001	19.1%	0.2%	19.3%	1.1%	0.7%	1.4%	**22.6%**
	2002	17.9%	0.2%	18.1%	0.3%	0.9%	1.1%	**20.4%**
	2003	17.6%	0.2%	17.8%	1.7%	0.7%	1.2%	**21.4%**
	Change, 2001-03	-0.3%	0.0%	-0.3%	1.4%	-0.2%	0.1%	1.0%

Details may not add to total due to rounding.

*Note: Baseline A represents performance under 1996-2000 scoring, thus figures for 1999-2000 in bold are official performance in those years. Baseline B adjusts Baseline A for technical changes in counting rules. Baseline C represents performance under 2001-03 scoring, thus figures for 2001-03 in bold are official performance in that year. Scoring of loans in this table is based on the 1990 Census and pre-2003 MSAs.

[1] *Technical changes* include credit for purchases of certain qualifying government-backed loans, exclusions of loans with missing information from the denominator in calculating performance, and the use of imputed or proxy rent for multifamily properties.

[2] *Small multifamily bonus points*: For 2001-03, every qualifying unit in a 5-50 unit multifamily property counts as two units in the numerator in calculating goal performance.

[3] *Single-family rental bonus points*: Above a threshold, every qualifying unit in a 2-4 unit property in which one unit is owner-occupied and the other units are rental counts as two units in the numerator in calculating goal performance for 2001-03.

[4] *Temporary adjustment factor (TAF)*: In December 2000 Congress enacted a provision whereby every qualifying unit in a large (> 50 unit) multifamily property counts as 1.35 units in calculating goal performance for Freddie Mac for 2001-03. This provision does not apply to goal performance for Fannie Mae.

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• *Performance on the Special Affordable Housing Goal under 1996–2000 Counting Rules Plus Technical Changes.* If the ''Baseline B'' counting approach had been in effect in 2000–03 and the GSEs'' had purchased the same mortgages that they actually did purchase in those years, Fannie Mae would have surpassed the special affordable goal in both 2000 and 2001, but not in 2002 or 2003, while Freddie Mac would have surpassed the goal in 2000 but fallen short in 2001–2003. Specifically, Fannie Mae's performance would have been 21.4 percent in 2000, 20.2 percent in 2001, 19.9 percent in 2002, and 19.3 percent in 2003. Freddie Mac's performance would have been 21.0 percent in 2000, 19.3 percent in 2001, 18.1 percent in 2002, and 17.8 percent in 2003.

• *Performance on the Special Affordable Housing Goal under 2001–2003 Counting Rules.* If the 2001–03 counting rules had been in effect in 2000–03 and the GSEs' had purchased the same mortgages that they actually did purchase in that year (*i.e.*, abstracting from any behavioral effects of ''bonus points,'' for example), both GSEs would have substantially surpassed the special affordable goal in all four years, but both GSEs' performance figures would have deteriorated somewhat between 2000 and 2003. Specifically, Fannie Mae's ''Baseline C'' performance would have been 22.2 percent in 2000, 21.6 percent in 2001, 21.4 percent in 2002, and 21.2 percent in 2003. Freddie Mac's performance would have been 23.4 percent in 2000, 22.6 percent in 2001, 20.4 percent in 2002 and 21.4 percent in 2003. Measured on this consistent basis, then, Fannie Mae's performance fell by 0.9 percentage point between 2000 and 2003. Freddie Mac's ''Baseline C'' performance fell by 2.0 percentage points between 2000 and 2003. These reductions were primarily due to 2001–03 being years of heavy refinance activity.

Details of Effects of Changes in Counting Rules on Goal Performance in 2001–03. As discussed above, counting rule changes that took effect in 2001 had significant impacts on the performance of both GSEs on the special affordable goal in 2001—3.0 percentage points for Fannie Mae and 3.5 percentage points for Freddie Mac. This section breaks down the effects of these changes on goal performance for both GSEs; results are shown in Table C.2.

• *Freddie Mac.* The largest impact of the counting rule changes on Freddie Mac's goal performance was due to the application of the temporary adjustment factor for purchases of mortgages on large multifamily properties, as enacted by Congress; this added 1.4 percentage points to goal performance in 2001, as shown in Table C.2. Bonus points for purchases of mortgages on small multifamily properties added 1.1 percentage points to performance, and bonus points for purchase of mortgages on owner-occupied 2–4 unit rental properties added 0.7 percentage point to performance. The remaining impact (0.2 percentage point) was due to technical changes in counting rules—primarily, the exclusion of single-family units with missing information from the denominator in calculating goal performance. Changes in the Department's counting rules related to ''recycling'' did not play a role in Freddie Mac's performance on the special affordable goal. These same patterns also generally appeared in 2002. But in 2003 bonus points for financing special affordable unit in small multifamily properties had a greater impact on performance that the temporary adjustment factor.

• *Fannie Mae.* The temporary adjustment factor applied to Freddie Mac's goal performance, but not to Fannie Mae's performance, thus counting rule changes had less impact on its performance than on Freddie Mac's performance in 2001–03. The largest impacts of the counting rule changes on Fannie Mae's goal performance in 2001 were due to the application of bonus points for purchases of mortgages on owner-occupied 2–4 unit rental properties, which added 0.9 percentage point to performance; bonus points for purchases of mortgages on small multifamily properties, which added 0.4 percentage point to performance; and technical changes, which added 1.6 percentage points to performance—the latter included the change in the Department's rules regarding ''recycling'' and the exclusion of single-family units with missing information from the denominator in calculating goal performance.[6] The use of proxy rents for multifamily properties played a minor role in determining Fannie Mae's special affordable goal performance. These same patterns also generally appeared in 2002 and 2003.

d. *Bonus Points for the Special Affordable Housing Goal*

As discussed above and in Appendix A, the Department established ''bonus points'' to encourage the GSEs to step up their activity in 2001–03 in two segments of the mortgage market—the small (5–50 unit) multifamily mortgage market, and the market for mortgages on 2–4 unit properties where 1 unit is owner-occupied and 1–3 units are occupied by renters. Bonus points did not apply to purchases of mortgages for owner-occupied 1-unit properties, for investor-owned 1–4 unit properties, and for large (> 50-unit) properties, although as also discussed above, a ''temporary adjustment factor'' applied to Freddie Mac's purchases of goal-qualifying mortgages on large multifamily properties.

Bonus points for small multifamily properties. Each unit financed in a small multifamily property that qualified for any of the housing goals was counted as two units in the numerator (and one unit in the denominator) in calculating goal performance for that goal. For example, if a GSE financed a mortgage on a 40-unit property in which 10 of the units qualified for the special affordable goal, 20 units would be entered in the numerator and 40 units in the denominator for this property in calculating goal performance.

Fannie Mae financed 37,449 units in small multifamily properties in 2001 that were eligible for the special affordable goal, 58,277 such units in 2002, and 214,619 such units in 2003—this compares with only 7,196 such units financed in 2000. Small multifamily properties also accounted for a greater share of Fannie Mae's multifamily business in 2001–03—7.4 percent of total multifamily units financed in 2001, 13.2 percent in 2002, and 28.4 percent in 2003, up from 2.5 percent in 2000. However, HUD's 2000 rule reported information from the 1991 Residential Finance Survey that small multifamily properties accounted for 37 percent of all multifamily units, thus Fannie Mae was still less active in this market than in the market for large multifamily properties. Within the small multifamily market, there was no evidence that Fannie Mae targeted affordable properties to a greater extent in 2001–03 than in 2000. That is, 61 percent of Fannie Mae's small multifamily units qualified for the special affordable goal in 2000; this fell to 46 percent in 2001, 52 percent in 2002, and 42 percent in 2003.

Freddie Mac financed 50,299 units in small multifamily properties in 2001 that were eligible for the special affordable goal, 22,255 such units in 2002, and 177,561 such units in 2003, as compared with only 2,996 such units financed in 2000. Small multifamily properties also accounted for a significantly greater share of Freddie Mac's multifamily business in 2001–03—16.0 percent of total multifamily units financed in 2001, 7.5 percent in 2002, and 30.0 percent in 2003, up from 1.8 percent in 2000.

Within the small multifamily market, there was some evidence that Freddie Mac targeted affordable properties to a greater extent in 2001 than in 2000. That is, 55 percent of Freddie Mac's small multifamily units qualified for the special affordable goal in 2000; this rose to 73 percent in 2001, but declined to 60 percent in 2002 and 54 percent in 2003.

In summary, then, there is evidence that bonus points for small multifamily properties had an impact on Fannie Mae's role in this market in 2001–03 and an even larger impact on Freddie Mac's role in this market. In addition, Fannie Mae has announced a program to increase its role in this market further in future years.[7]

Bonus points for single-family rental properties. Above a threshold, each unit financed in a 2–4 unit property with at least one owner-occupied unit (referred to as ''OO24s'' below) that qualified for any of the housing goals was counted as two units in the numerator (and one unit in the denominator) in calculating goal performance for that goal in 2001–03. The threshold was equal to 60 percent of the average number of such qualifying units over the previous five years. For example, Fannie Mae financed an average of 24,780 special affordable units in these types of properties between 1996 and 2000, and 55,118 such units in 2001. Thus Fannie Mae received 40,250 bonus points in this area in 2001—that is, 55,118 minus 60 percent of 24,780. So 95,368 units were entered in the numerator for these properties in calculating special affordable goal performance.

[6] Exclusion of loans with missing information had a greater impact on Fannie Mae's goal performance than on Freddie Mac's goal performance.

[7] ''Fannie Courting Multifamily Sellers; Small Banks Balking.'' American Banker, January 13, 2003, p.1.

Fannie Mae financed 176,369 units in OO24s that were eligible for the special affordable goal in 2001, 229,827 such units in 2002, and 355,994 such units in 2003, as compared with 77,985 such units financed in 2000. However, Fannie Mae's total single-family business increased at approximately the same rate as its OO24 business over the 2001–03 period, thus the share of this business accounted for by OO24s was the same in 2001–03 as in 2000—4 percent.

Within the OO24 market, there was no evidence that Fannie Mae targeted special affordable properties to a greater extent in 2001–03 than in 2000. That is, approximately 30 percent of Fannie Mae's OO24 units qualified for the special affordable goal in each of these years.

Freddie Mac financed 96,204 units in OO24s that were eligible for the special affordable goal in 2001, 146,242 such units in 2002, and 154,535 such units in 2003, as compared with 49,993 such units financed in 2000. However, Freddie Mac's total single-family business increased at approximately the same rate as its OO24 business between 2000 and 2002, thus the share of this business accounted for by OO24s was the same in 2002 as in 2000—4 percent. And its overall single-family business increased more rapidly than its OO24 business in 2003, thus OO24 units accounted for 3 percent of all single-family units last year.

As for Fannie Mae, within the OO24 market there was no evidence that Freddie Mac targeted special affordable properties to a greater extent in 2001–03 than in 2000. That is, approximately 32–36 percent of Freddie Mac's OO24 units qualified for the special affordable goal in each of these four years.

e. Effects of 2000 Census on Scoring of Loans Toward the Special Affordable Housing Goal

Background. Scoring of housing units under the Special Affordable Housing Goal is based on data for mortgagors' incomes for owner-occupied units, rents for rental units, area median incomes, and, for units that are in the low-income but not the very low-income range, decennial census data used to determine whether the median income for the area where the property is located is in the low-income range. Specifically, for single-family owner-occupied units scoring is based on.

• The mortgagors' income at the time of mortgage origination

• The median income of an area specified in the same way as for the Low- and Moderate-Income Housing Goal, that is: (i) For properties located in Metropolitan Statistical Areas (MSAs) the area is the MSA; and (ii) for properties located outside of MSAs, the area is the county or the non-metropolitan portion of the State in which the property is located, whichever has the larger median income, as of the year of mortgage origination (which may be for the current year or a prior year).

• Also, if the property is located in a Metropolitan Statistical Area (MSA), the determination for purposes of the Special Affordable Housing Goal involves data on median income of the MSA; or if the property is located elsewhere, the median income of the county or the non-metropolitan portion of the State in which the property is located, whichever is larger, as of the most recent decennial census.

Analogous specifications to those detailed in Appendix A for the Low- and Moderate-Income Housing Goal are applied in the case of the Special Affordable Housing Goal for rental units in single-family properties with rent data available (assuming no income data available for actual or prospective tenants), for rental units in multifamily properties where rent data are available, and for rental units in multifamily properties where rent data are not available.

Thus, scoring loans under the Special Affordable Housing Goal requires a data series showing annual median incomes for MSAs, non-metropolitan counties, and the non-metropolitan portions of states; decennial census data on median incomes for census tracts; and decennial census data on median incomes for MSAs, non-metropolitan counties, and the non-metropolitan portions of States.[8]

For scoring loans purchased by the GSEs year-by-year from 1993 through 2003, area median income estimates produced by HUD's Economic and Market Analysis Division were used. The same median income data series described in Appendix A for the Low- and Moderate-Income Goal was used. The determination of low-income areas was based on 1990 census data.

2005 Procedure. Relative to the above procedure, scoring of loans purchased by the GSEs in and after 2005 will be affected by two factors—first, re-benchmarking of area median incomes to the 2000 census as described in Appendix A, with a shift from 1990 to 2000 census data for identifying low-income areas, and second, the Office of Management and Budget's June, 2003, re-specification of MSA boundaries based on analysis of 2000 census data.[9]

Analysis. For purposes of specifying the level of the Special Affordable Housing Goal, the HUD estimates of area median incomes for MSAs, non-metropolitan counties, and the non-metropolitan parts of States, as described in Appendix A, were used in conjunction with the data identifying low-income areas based on the 2000 census, to re-score loans purchased by the GSEs between 1999 and 2003. The same data series were used further in estimating the share of loans originated in metropolitan areas that would be eligible to score toward the Special Affordable Housing Goal, from HMDA data. The results of the retrospective GSE analysis are provided in Table C.3. The results of the GSE–HMDA comparative analysis are presented in the next section.

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[8] In New England, MSAs were defined through mid-2003 in terms of Towns rather than Counties, and the portion of a New England county outside of any MSA was regarded as equivalent to a county in establishing the metropolitan or non-metropolitan location of a property. The MSA definitions established by the Office of Management and Budget (OMB) in June 2003 defined MSAs in New England in terms of counties.

[9] HUD has deferred application of the 2003 MSA specification to 2005, pending completion of the present rulemaking process.

Table C.3

Effects of 2000 Census on Scoring Toward Special Affordable Housing Goal

	1999	2000	2001	2002	2003
Fannie Mae:					
Benchmark*	18.5%	21.4%	20.2%	19.9%	19.3%
With 2000 Re-benchmarking and 2000 Low-Income Areas	19.2%	22.6%	21.2%	20.7%	20.6%
Adding 2003 MSAs	18.6%	21.7%	20.1%	19.4%	20.8%
Freddie Mac:					
Benchmark*	17.4%	21.0%	19.3%	18.1%	17.8%
With 2000 Re-benchmarking and 2000 Low-Income Areas	18.2%	21.8%	20.1%	18.5%	18.9%
Adding 2003 MSAs	17.4%	20.8%	19.1%	17.3%	19.0%

* Baseline B in Table C.2.

Table C.3 shows three sets of estimates for each GSE, based respectively on the counting rules in place in 2001–2003 (but disregarding the bonus points and Temporary Adjustment Factor), on the addition of 2000 census re-benchmarking and low-income areas, and finally on the further addition of 2003 MSA specification.

f. The GSEs' Multifamily Special Affordable Purchases

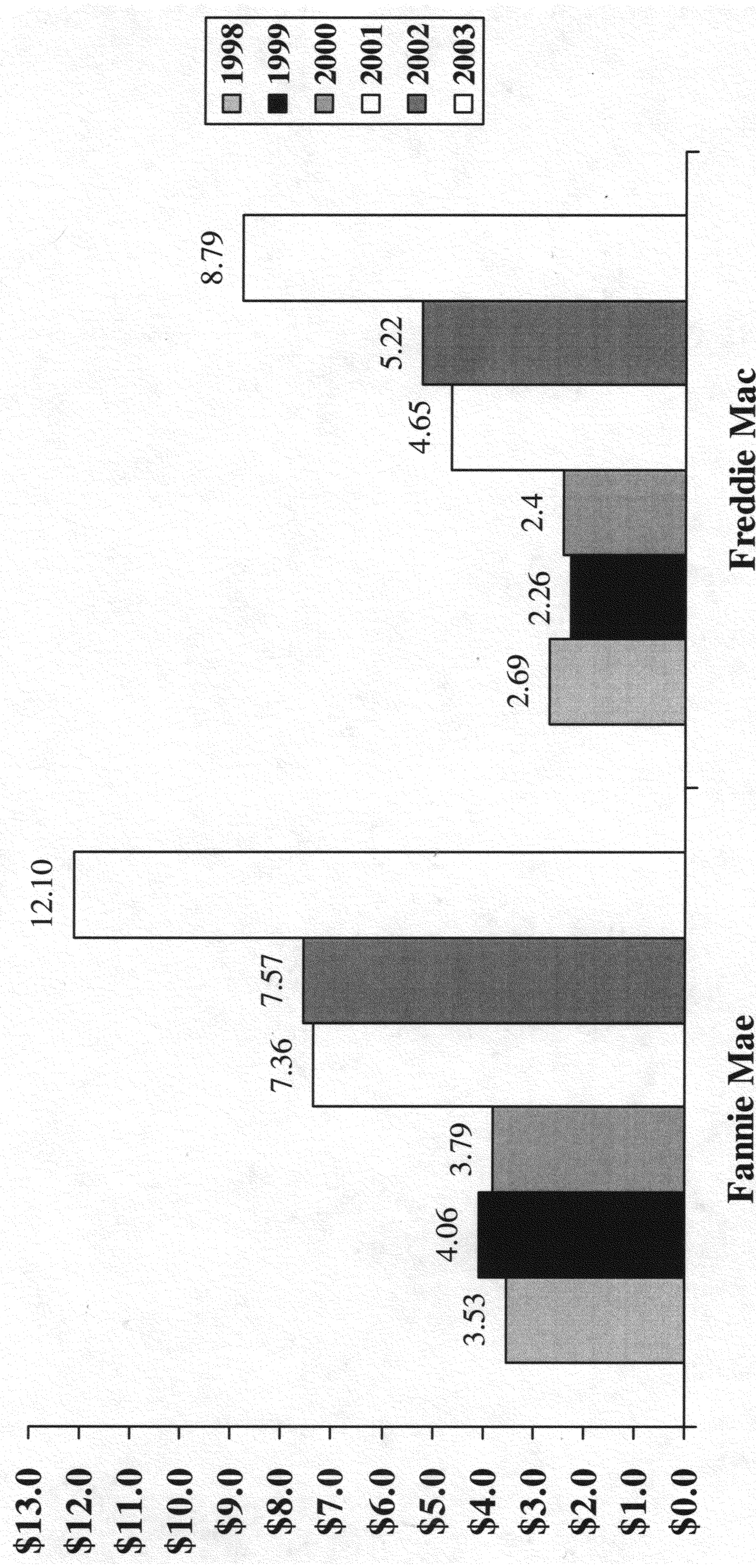
Since 1996 each GSE has been subject to an annual dollar-based subgoal for Special Affordable multifamily mortgage purchases, as discussed above. This subgoal was established for 1996–2000 as 0.8 percent of the total dollar volume of single-family and multifamily mortgages purchased by the respective GSE in 1994. Thus Fannie Mae's subgoal was $1.29 billion per year and Freddie Mac's subgoal was $988 million per year during that period. Fannie Mae surpassed the subgoal by $1.08 billion, $1.90 billion, $2.24 billion, $2.77 billion, and $2.50 billion in 1996, 1997, 1998, 1999, and 2000 respectively, while Freddie Mac exceeded the subgoal by $18 million, $220 million, $1.70 billion, $1.27 billion, and $1.41 billion.

The subgoal was established for 2001–03 as 1.0 percent of the average annual volume of each GSE's total mortgage purchases over the 1997–99 period. Thus Fannie Mae's subgoal was established as $2.85 billion per year and Freddie Mac's as $2.11 billion per year. In 2001 Fannie Mae exceeded its subgoal by $4.51 billion and Freddie Mac exceeded its subgoal by $2.54 billion. In 2002, Fannie Mae exceeded its subgoal by $4.72 billion and Freddie Mac exceeded its subgoal by $3.11 billion. Both GSEs exceeded their subgoals in 2003 by wide margins—Fannie Mae, with special affordable multifamily purchases of $12.11 billion (goal of $2.85 billion), and Freddie Mac, with purchases of $8.79 billion (goal of $2.11 billion.) Those subgoals are also in effect for 2004. Table C.1 includes figures on subgoal performance, and they are depicted graphically in Figure C.2.

Figure C.2

Multifamily Special Affordable Mortgage Purchases

(Billions of Dollars Per Year)



Multifamily Special Affordable Goals were $1.29 billion per year for Fannie Mae and $988 million per year for Freddie Mac for 1998-2000, and $2.85 billion per year for Fannie Mae and $2.11 billion per year for Freddie Mac for 2001-03.

Source: HUD analysis of GSEs' loan-level data.

g. Characteristics of the GSEs' Special Affordable Purchases

The following analysis presents information on the composition of the GSEs' Special Affordable purchases according to area income, unit affordability, tenure of unit and property type (single-or multifamily).

Tables C.4 and C.5 show that each GSE's reliance on multifamily housing units to meet the special affordable goal has been variable from year to year since 1996. Fannie Mae's multifamily purchases were at 37.7 percent in 1996,28.8 percent in 2001, and 20.0 percent in 2002, with a high of 44.0 percent in 1997 and a low of 19.6 percent in 2003. Freddie Mac's multifamily purchases represented 29.4 percent of all purchases qualifying for the goal in 1996, 27.0 percent in 2001, and 20.4 percent in 2002, with a high of 31.5 percent in 1997 and a low of 20.4 percent in 2002. The two GSEs' purchase percentages for single-family owner properties exhibited a similar variability through this entire period, as did their purchases of mortgages financing single-family rental units from 1996 through 2003. Both GSEs' high points for mortgages financing single-family rental units occurred in 2002: Fannie Mae's purchase percentage was 20.0 percent while Freddie Mac's was 18.1 percent.

Table C.4

Fannie Mae's Special Affordable Purchases By Unit Affordability and Area Income, 1997-2003

Year of Purchase and Type of Unit	Very-Low Income Units in Low-Income Areas	Very-Low Income Units Outside Low-Income Areas	Other Low-Income Units in Low-Income Areas	Other Units Qualifying For Goal*	Total Units Qualifying For Goal	Percent
1997						
Single-family owner	23,909	91,400	20,825		136,134	45.9%
Single-family rental	9,169	15,290	5,399		29,858	10.1%
Multifamily	27,522	80,069	13,294	9,488	130,373	44.0%
Total	60,600	186,759	39,518	9,488	296,365	100.0%
Percent	20.4%	63.0%	13.3%	3.2%	100.0%	
1998						
Single-family owner	43,631	212,519	41,108		297,257	59.5%
Single-family rental	18,158	34,396	11,314		63,868	12.8%
Multifamily	34,481	74,417	19,799	10,126	138,822	27.8%
Total	96,270	321,332	72,221	10,126	499,947	100.0%
Percent	19.3%	64.3%	14.4%	2.0%	100.0%	
1999						
Single-family owner	41,943	205,048	36,366		283,357	54.8%
Single-family rental	21,161	38,663	12,063		71,887	13.9%
Multifamily	38,292	95,623	15,586	12,423	161,924	31.3%
Total	101,396	339,334	64,015	12,423	517,168	100.0%
Percent	19.6%	65.6%	12.4%	2.4%	100.0%	
2000						
Single-family owner	33,781	143,596	26,500		203,877	49.6%
Single-family rental	21,458	27,829	10,817		60,104	14.6%
Multifamily	31,200	91,160	12,250	12,648	147,258	35.8%
Total	86,439	262,585	49,567	12,648	411,239	100.0%
Percent	21.0%	63.9%	12.1%	3.1%	100.0%	
2001						
Single-family owner	79,563	349,042	66,861		495,466	54.1%
Single-family rental	52,893	75,465	27,816		156,174	17.1%
Multifamily	62,449	145,919	35,496	20,216	264,080	28.8%
Total	194,905	570,426	130,173	20,216	915,720	100.0%
Percent	21.3%	62.3%	14.2%	2.2%	100.0%	
2002						
Single-family owner	107,583	496,681	86,861		691,125	59.9%
Single-family rental	76,216	111,582	43,056		230,854	20.0%
Multifamily	60,058	126,710	30,289	13,988	231,045	20.0%
Total	243,857	734,973	160,206	13,988	1,153,024	100.0%
Percent	21.1%	63.7%	13.9%	1.2%	100.0%	
2003						
Single-family owner	137,105	828,781	167,780		1,133,666	63.3%
Single-family rental	54,446	160,308	91,113		305,867	17.1%
Multifamily	61,626	183,715	85,394	20,303	351,038	19.6%
Total	253,177	1,172,804	344,287	20,303	1,790,571	100.0%
Percent	14.1%	65.5%	19.2%	1.1%	100.0%	

* Low-income rental units in multifamily properties where at least 20 percent of the units are affordable to families whose incomes are 50 percent of area median income or less or where at least 40 percent of the units are affordable to families whose incomes are 60 percent of area median income or less, which do not otherwise qualify under the goal.

Table C.5

Freddie Mac's Special Affordable Purchases By Unit Affordability and Area Income, 1997-2003

Year of purchase and Type of unit	Very-Low Income Units in Low-Income Areas	Very-Low Income Units Outside Low-Income Areas	Other Low-Income Units in Low-Income Areas	Other Units Qualifying For Goal*	Total Units Qualifying For Goal	Percent
1997						
Single-family owner	15,742	66,656	15,449		97,847	54.7%
Single-family rental	7,469	11,612	5,552		24,633	13.8%
Multifamily	16,131	28,789	8,133	3,203	56,256	31.5%
Total	39,342	107,057	29,134	3,203	178,736	100.0%
Percent	22.0%	59.9%	16.3%	1.8%	100.0%	
1998						
Single-family owner	40,690	176,846	33,869		251,404	59.4%
Single-family rental	14,665	28,691	7,364		50,720	12.0%
Multifamily	30,736	63,272	21,609	5,159	120,776	28.6%
Total	86,091	268,809	62,842	5,159	422,900	100.0%
Percent	20.4%	63.6%	14.9%	1.2%	100.0%	
1999						
Single-family owner	37,675	168,684	31,452		237,810	62.0%
Single-family rental	18,054	33,305	11,179		62,538	16.3%
Multifamily	20,969	46,765	10,001	5,247	82,982	21.6%
Total	76,698	248,754	52,632	5,247	383,330	100.0%
Percent	20.0%	64.9%	13.7%	1.4%	100.0%	
2000						
Single-family owner	35,718	133,527	25,639		194,884	59.5%
Single-family rental	16,781	26,542	10,212		53,535	16.3%
Multifamily	19,769	45,414	8,327	5,865	79,375	24.2%
Total	72,268	205,483	44,178	5,865	327,794	100.0%
Percent	22.0%	62.7%	13.5%	1.8%	100.0%	
2001						
Single-family owner	54,008	249,431	45,014		348,453	55.8%
Single-family rental	31,375	56,855	19,030		107,260	17.2%
Multifamily	48,265	87,375	23,882	9,231	168,753	27.0%
Total	133,648	393,661	87,926	9,231	624,466	100.0%
Percent	21.4%	63.0%	14.1%	1.5%	100.0%	
2002						
Single-family owner	77,100	342,640	61,355		481,095	61.5%
Single-family rental	40,279	71,176	30,487		141,942	18.1%
Multifamily	34,672	78,284	23,200	8,136	144,292	18.8%
Total	152,051	492,100	115,042	8,136	767,329	100.0%
Percent	19.8%	64.1%	15.0%	1.1%	100.0%	
2003						
Single-family owner	64,616	74,174	410,214		549,004	56.4%
Single-family rental	22,044	32,169	73,969		128,182	13.2%
Multifamily	69,840	81,152	133,441	11,531	295,964	30.4%
Total	156,500	187,495	617,624	11,531	973,150	100.0%
Percent	16.1%	19.3%	63.5%	1.2%	100.0%	

* Low-income rental units in multifamily properties where at least 20 percent of the units are affordable to families whose incomes are 50 percent of area median income or less or where at least 40 percent of the units are affordable to families whose incomes are 60 percent of area median income or less, which do not otherwise qualify under the goal.

Tables C.4 and C.5 also show the allocation of units qualifying for the goal as related to the family income and area median income criteria in the goal definition. Very-low-income families (shown in the two leftmost columns in the tables) accounted for 83.4 percent of Fannie Mae's units qualifying under the goal in 1997, rising to 85.2 percent in 1999. For Freddie Mac, very-low-income families accounted for 81.9 percent of units qualifying under the goal in 1997, rising to 84.9 percent in 1999. In contrast, mortgage purchases from low-income areas (shown in the first and third columns in the tables) accounted for 33.7 percent of Fannie Mae's units qualifying under the goal in 1997, compared to 35.5 percent in 2001. The corresponding percentages for Freddie Mac were 38.3 percent in 1997 and 35.5 percent in 2001. Thus given the definition of special affordable housing in terms of household and area income characteristics, both GSEs have consistently relied substantially more on low-income characteristics of households than low-income characteristics of census tracts to meet this goal.

h. The GSEs' Performance Relative to the Market

Section E.9 in Appendix A uses HMDA data and GSE loan-level data for home purchase mortgages on single-family-owner properties in metropolitan areas to compare the GSEs' performance in special affordable lending to the performance of depositories and other lenders in the conventional conforming market. (See Tables A.13 to A.16 in Appendix A.). There were two main findings with respect to the special affordable category. *First,* Freddie Mac and Fannie Mae have historically lagged depositories and the overall market in providing mortgage funds for special affordable borrowers over periods, such as 1993–2003, 1996–2003 and 1999–2003. Between 1993 and 2003, 12.2 percent of Freddie Mac's mortgage purchases were for special affordable borrowers, 13.3 percent of Fannie Mae's purchases, 15.4 percent of loans originated by depositories, and 15.5 percent of loans originated in the conventional conforming market (without estimated B&C loans). For the recent years, the GSE-market comparisons are as follows:

Year (in percent)	Freddie Mac (in percent)	Fannie Mae (in percent)	Market (w/o B&C) (in percent)
1999	12.8	12.5	17.0
2000	14.7	13.3	16.6
2001	14.4	14.9	15.6
2002	15.8	16.3	16.1
2003	15.6	17.1	15.9
1996–2003	13.2	14.1	15.9
1999–2003	14.7	15.1	16.2
2001–2003	15.2	16.2	15.9

During the period between 1999 and 2003, the GSEs' performance was slightly over 90 percent of the market—special affordable loans accounted for 15.1 percent of Fannie Mae's purchases, 14.7 percent of Freddie Mac's purchases, and 16.2 percent of loans originated in the conforming market.

Second, while both GSEs have improved their performance over the past few years, Fannie Mae has been made more progress than Freddie Mac in erasing its gap with the market. During the first three years (2001, 2002, and 2003) of HUD's new housing goal targets, the average share of Fannie Mae's purchases going to special affordable loans was 16.2 percent, which was above the market average of 15.9 percent. The share of Freddie Mac's purchases going to special affordable loans was 15.2 percent during this period.

Section G in Appendix A discusses the role of the GSEs both in the overall special affordable market and in the different segments (single-family owner, single-family rental, and multifamily rental) of the special affordable market. The GSEs' special affordable purchases accounted for 41 percent of all special affordable owner and rental units that were financed in the conventional conforming market between 1999 and 2002. The GSEs' 41-percent share of the special affordable market was three-fourths of their 55-percent share of the overall market. Even in the owner market, where the GSEs account for 61 percent of the market, their share of the special affordable market was only 52 percent during this period. While the GSEs improved their market shares during 2001–2003, this analysis shows that there is room and ample opportunities for the GSEs, and particularly Freddie Mac, to improve their performance in purchasing affordable loans at the lower-income end of the market. Section C.3 of this appendix discusses a home purchase subgoal designed to place the GSEs in such a leadership position in the special affordable single-family-owner market.

Factor 3. National Housing Needs of Low-Income Families in Low-Income Areas and Very-Low-Income Families

This discussion concentrates on very-low-income families with the greatest needs. It complements Section C of Appendix A, which presents detailed analyses of housing problems and demographic trends for lower-income families which are relevant to the issue addressed in this part of Appendix C.

Data from the American Housing Survey demonstrate that housing problems and needs for affordable housing continue to be more pressing in the lowest-income categories than among moderate-income families, as established in HUD's analysis for the 1995 and 2000 Final Rules. Table C.6 displays figures on several types of housing problems—high housing costs relative to income, physical housing defects, and crowding–for both owners and renters. Figures are presented for households experiencing multiple (two or more) of these problems as well as households experiencing a severe degree of either cost burden or physical problems. Housing problems in 2001 continued to be much more frequent for the lowest-income groups.[10] Incidence of problems is shown for households in the income range covered by the special affordable goal, as well as for higher income households.

[10] Tabulations of the 2001 American Housing Survey by HUD's Office of Policy Development and Research. The results in the table categorize renters reporting housing assistance as having no housing problems.

Table C.6

Incidence of Housing Problems by Household Income, 2001

	Household Income as a Percent of Area Median Income, 2001			
	0-60%	61-80%	81-100%	>100%
Renter Households (Thousands)				
Total	17,892	4,413	3,619	8,118
Rent Burden > 50% of income	6,238	112	77	27
31-50% of income	5,344	927	368	277
Severely Inadequate Housing	774	108	92	206
Moderately Inadequate	1,616	281	199	442
Crowded	1,151	206	121	196
Multiple Problems*	2,084	106	36	60
Priority Problems**	6,740	217	170	233
As Percent of Total				
Rent Burden > 50% of income	34.9%	2.5%	2.1%	0.3%
31-50% of income	29.9%	21.0%	10.2%	3.4%
Severely Inadequate Housing	4.3%	2.4%	2.6%	2.5%
Moderately Inadequate	9.0%	6.4%	5.5%	5.4%
Crowded	6.4%	4.7%	3.4%	2.4%
Multiple Problems*	11.6%	2.4%	1.0%	0.7%
Priority Problems**	37.7%	4.9%	4.7%	2.9%
Owner Households (Thousands)				
Total	18,432	7,510	7,631	38,792
Cost Burden > 50% of income	5,624	550	321	391
31-50% of income	4,208	1,814	1,517	2,446
Severely Inadequate Housing	389	102	127	336
Moderately Inadequate	874	260	179	694
Crowded	436	122	162	259
Multiple Problems*	821	139	104	80
Priority Problems**	5,908	636	449	728
As Percent of Total				
Cost Burden > 50% of income	30.5%	7.3%	4.2%	1.0%
31-50% of income	22.8%	24.2%	19.9%	6.3%
Severely Inadequate Housing	2.1%	1.4%	1.7%	0.9%
Moderately Inadequate	4.7%	3.5%	2.3%	1.8%
Crowded	2.4%	1.6%	2.1%	0.7%
Multiple Problems*	4.5%	1.8%	1.4%	0.2%
Priority Problems**	32.1%	8.5%	5.9%	1.9%

* Two or three of the following: housing costs > 30% of income, severe or moderate physical problems, or overcrowding.

** Housing costs > 50% of income or severely inadequate housing among unassisted households.

Note: Incomes of renter households are estimated based on rents, adjusted for number of bedrooms.

This analysis shows that priority problems of severe cost burden or severely inadequate housing are noticeably concentrated among renters and owners with incomes below 60 percent of area median income: 30.5 percent of renter households and 34.9 percent of owner households had priority problems. In contrast, in the next higher income range, up to 80 percent of area median income, 2.5 percent of renter households and 7.3 percent of owner households had priority problems. The table demonstrates the significance of affordability problems: Sixty-five percent of very-low-income renter families had rent burden over 30 percent of income; 35 percent had rent burden over 50 percent of income. Thirteen percent had moderately or severely inadequate housing; 6 percent lived in crowded conditions, defined as more than one person per room.

Factor 4. The Ability of the Enterprises To Lead the Industry in Making Mortgage Credit Available for Low-Income and Very-Low-Income Families

The discussion of the ability of Fannie Mae and Freddie Mac to lead the industry in Section G of Appendix A is relevant to this factor—the GSEs' roles in the owner and rental markets, their role in establishing widely-applied underwriting standards, their role in the development of new technology for mortgage origination, their strong staff resources, and their financial strength. Additional analyses of the potential ability of the enterprises to lead the industry in the low- and very-low-income market appears below in Section D, which explains the Department's rationale for the home purchase subgoal for Special Affordable loans.

Factor 5. The Need to Maintain the Sound Financial Condition of the GSEs

HUD has undertaken a separate, detailed economic analysis of this final rule, which includes consideration of (a) the financial returns that the GSEs earn on special affordable loans and (b) the financial safety and soundness implications of the housing goals. Based on this economic analysis, HUD concludes that the housing goals in this final rule raise minimal, if any, safety and soundness concerns.

C. Determination of the Special Affordable Housing Goal

Several considerations, many of which are reviewed in Appendixes A and B and in previous sections of this Appendix, led to the determination of the Special Affordable Housing Goal, the multifamily special affordable subgoal, and the special affordable subgoal for home purchase loans on single-family-owner properties in metropolitan areas.

1. Severe Housing Problems

The data presented in Section C.3 demonstrate that housing problems and needs for affordable housing are much more pressing in the lowest-income categories than among moderate-income families. The high incidence of severe problems among the lowest-income renters reflects severe shortages of units affordable to those renters. At incomes below 60 percent of area median, 34.7 percent of renters and 21.6 percent of owners paid more than 50 percent of their income for housing. In this same income range, 65.6 percent of renters and 42.4 percent of owners paid more than 30 percent of their income for housing. In addition, 31.5 percent of renters and 23.8 percent of owners exhibited ''priority problems'', meaning housing costs over 50 percent of income or severely inadequate housing. Homeownership gaps and other disparities in the housing and mortgage markets discussed in Section H of Appendix A also apply to Special Affordable housing and mortgages.

2. GSE Performance and the Market

a. The GSEs' Special Affordable Housing Goals Performance

In the October 2000 rule, the special affordable goal was set at 20 percent for 2001–03. Effective on January 1, 2001, several changes in counting requirements came into effect for the special affordable goal, as follows: (a)''bonus points'' (double credit) for purchases of mortgages on small (5–50 unit) multifamily properties and, above a threshold level, mortgages on 2–4 unit owner-occupied properties; (b) a ''temporary adjustment factor'' (1.35 unit credit) for Freddie Mac's purchases of mortgages on large (more than 50 unit) multifamily properties; (c) changes in the treatment of missing data; (d) a procedure for the use of imputed or proxy rents for determining goal credit for multifamily mortgages; and (e) changes regarding the ''recycling'' of funds by loan originators.

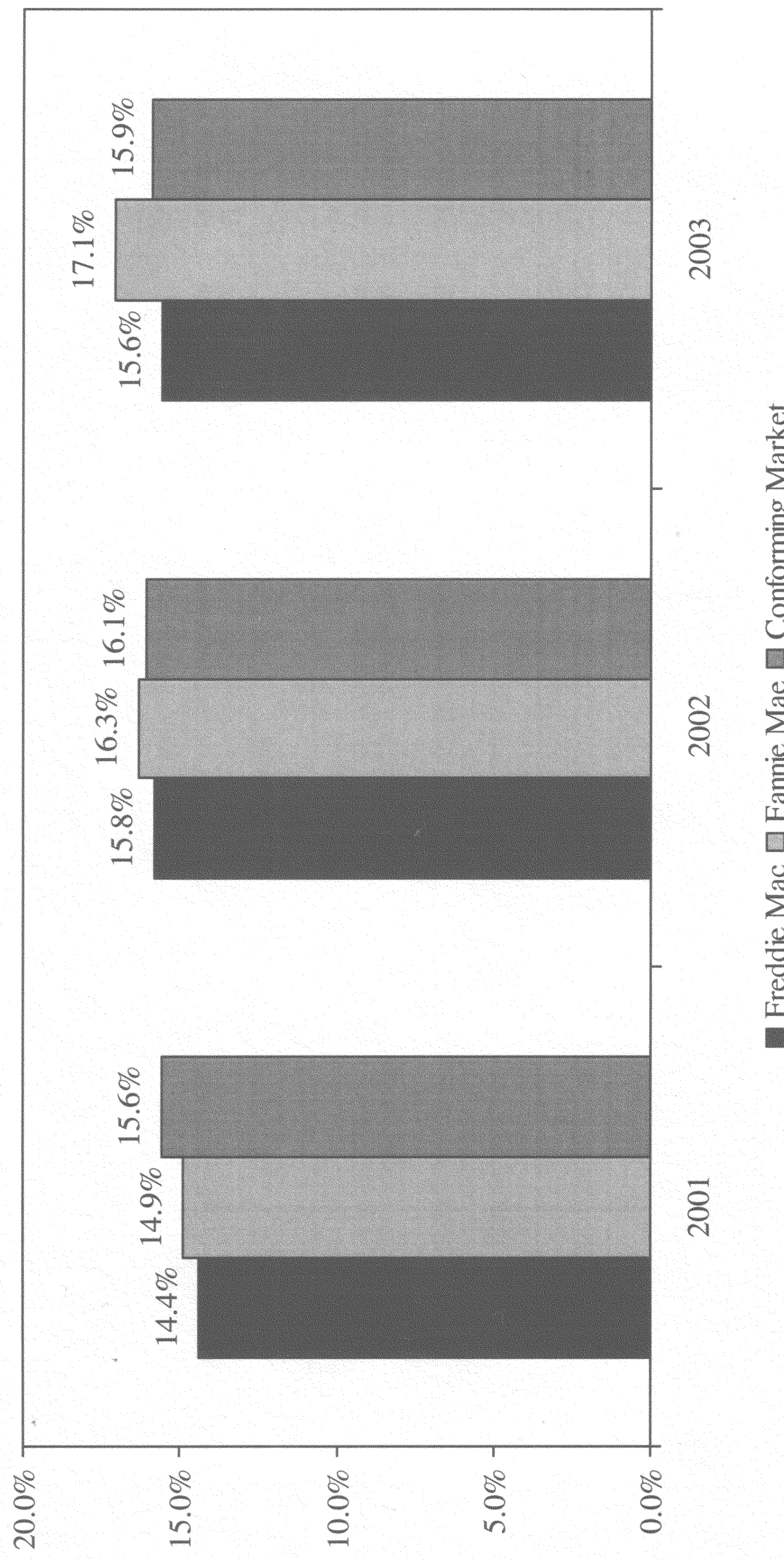
Counting requirements (a) and (b) expired at the end of 2003 while (c)–(e) will remain in effect after that. If this counting approach—without the bonus points and the ''temporary adjustment factor''—had been in effect in 2000–2003, and the GSEs' had purchased the same mortgages that they actually did purchase in both years, then Fannie Mae's performance would have been 21.4 percent in 2000, 20.2 percent in 2001, 19.9 percent in 2002, and 19.4 percent in 2003. Freddie Mac's performance would have been 21.0 percent in 2000, 19.3 percent in 2001, 18.1 percent in 2002, and 17.8 percent in 2003. Fannie Mae would have surpassed the special affordable goal in both 2000 and 2001, but not in 2002 or 2003. Freddie Mac would have surpassed the goal in 2000 but fallen short in 2001–03.

The above performance figures are for the special affordable goal defined in terms of 1990 Census geography. Switching to 2000 Census data slightly increases the coverage of special affordable goal, which increases the special affordable share of the GSEs' purchases by up to one percentage point. Based on 2000 Census geography and adding 2003 MSAs, and excluding counting requirements (a) and (b), then Fannie Mae's performance would have been 21.7 percent in 2000, 20.1 percent in 2001, 19.4 percent in 2002, and 20.8 percent in 2003. Freddie Mac's performance would have been 20.8 percent in 2000, 19.1 percent in 2001, 17.3 percent in 2002 and 19.0 percent in 2003. See Table C.3.

b. Single-Family Market Comparisons in Metropolitan Areas

The Special Affordable Housing Goal is designed, in part, to ensure that the GSEs maintain a consistent focus on serving the very low-income portion of the housing market where housing needs are greatest. Section C compared the GSEs' performance in special affordable lending to the performance of depositories and other lenders in the conventional conforming market for single-family home loans. The analysis showed that while both GSEs have been improved their performance, their past average performance (1993–2003, 1996–2003, and 1999–2003) has been below market levels. During 2002 and 2003, Fannie Mae improved its performance enough to lead the special affordable market for home purchase loans, but Freddie Mac, although it also improved its performance during this recent period, continues to lag behind the primary market. Between 1999 and 2003, special affordable borrowers accounted for 15.1 percent of the home loans purchased by Fannie Mae, 14.7 percent of Freddie Mac's purchases, 16.2 percent of home loans originated by depositories, and 16.2 percent of all home loans originated in the conventional conforming market (without B&C loans). As noted above, while both GSEs have improved their performance over the past few years, Fannie Mae has made more progress than Freddie Mac in closing its gap with the market. During 2003, the share of Fannie Mae's purchases going to special affordable loans was 17.1 percent, which was 1.2 percentage points above the market average of 15.9 percent. The share of Freddie Mac's purchases going to special affordable loans had improved to 15.6 percent by 2003. (See Figure C.3.)

Figure C.3
Special Affordable Shares of Conventional Conforming Market Originations and GSE Purchases, 2001-2003



Source: Conforming market (without B&C loans) data are from 2001-2003 HMDA; GSE data are from loan-level data reported to HUD. Data are for single-family home purchase loans in metropolitan areas. See Table A.15 for further explanation.

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3. Ability To Lead the Single-Family Owner Market: A Special Affordable Subgoal

The Secretary believes the GSEs can play a leadership role in the special affordable market. Thus, the Department is establishing a subgoal of 17 percent for each GSE's purchases of home purchase loans for special affordable families in the single-family-owner market of metropolitan areas for 2005 and 2006, rising to 18 percent during 2007 and 2008. The purpose of this subgoal is to encourage the GSEs to improve their purchases of mortgages for very-low-income and minority first-time homebuyers who are expected to enter the housing market over the next few years. If the GSEs meet the 18-percent subgoal, they will be leading the primary market by approximately two percentage points, based on the income characteristics of home purchase loans reported in HMDA. HMDA data show that special affordable families accounted for an average of 16.2 (15.9) percent of single-family-owner loans originated in the conventional conforming market of metropolitan areas between 1999 and 2003 (2001 and 2003). Loans in the B&C portion of the subprime market are not included in these averages. As explained in Appendix D, HUD also projected special affordable shares for the market for 1999 to 2002 using the new 2000 Census geography and the new OMB specifications. For special affordable loans, the 2000-based Census data resulted in special affordable shares for the market and the GSEs that were similar to the 1990-based special affordable shares reported in Section C of this appendix.

To reach the 18-percent subgoal for 2008, Freddie Mac would have to improve its performance by 2.4 percentage points over its special affordable share of 15.6 percent in 2003. Fannie Mae would have to improve its performance by 0.9 percentage point over its market-leading special affordable share of 17.1 percent in 2003. The approach taken is for the GSEs to obtain their leadership position by staged increases in the special affordable subgoal; this will enable the GSEs to take new initiatives in a correspondingly staged manner to achieve the new subgoal each year. Thus, the increases in the special affordable subgoal are sequenced so that the GSEs can gain experience as they improve and move toward the new higher subgoal targets.

The subgoal applies only to the GSEs' purchases in metropolitan areas because the HMDA-based market benchmark is only available for metropolitan areas. HMDA data for non-metropolitan counties are not reliable enough to serve as a market benchmark. The Department is also setting home purchase subgoals for the other two goals-qualifying categories, as explained in Appendices A and B. Sections E.9 and G of Appendix A provide additional information on the opportunities for an enhanced GSE role in the special affordable segment of the home purchase market and on the ability of the GSEs to lead that market.

The preamble and Appendix A discuss in some detail the factors that the Department considered when setting the subgoal for low- and moderate-income loans. Several of the considerations were general in nature—for example, related to the GSEs' overall ability to lead the single-family-owner market—while others were specific to the low-mod subgoal. Because the reader can refer to Appendix A, this appendix provides a briefer discussion of the more general factors. The specific considerations that led to the subgoal for special affordable loans can be organized around the following four topics:

(1) *The GSEs have the ability to lead the market.* As discussed in Appendix A, the GSEs have the ability to lead the primary market for single-family-owner loans, which is their ''bread-and-butter'' business. Both GSEs have been dominant players in the home purchase market for years, funding 61 percent of the single-family-owner mortgages financed between 1999 and 2002. Through their many new product offerings and their various partnership initiatives, the GSEs have shown that they have the capacity to reach out to very-low-income and other special affordable borrowers. They also have the staff expertise and financial resources to make the extra effort to lead the primary market in funding single-family-owner mortgages for special affordable borrowers.

(b) *GSEs' Performance Relative to the Market.* Even though the GSEs have had the ability to lead the home purchase market, their past average performance (1993–2003, 1996–2003, and 1999–2003) has been below market levels. During 2003, Fannie Mae improved its performance enough to lead the special affordable market for home purchase loans, but Freddie Mac, although it also has improved its performance, continues to lag behind the primary market. The subgoals will ensure that Fannie Mae maintains and further improves its above-market performance and that Freddie Mac not only erases its current gap with the market but also takes a leadership position as well. With respect to the GSEs' historical performance, special affordable mortgages accounted for 13.2 (14.7) percent of Freddie Mac's purchases during 1996–2003 (1999–2003), for 14.1 (15.1) percent of Fannie Mae's purchases, and for 15.9 (16.2) percent of primary market originations (excluding B&C loans). The type of improvement needed for Freddie Mac to meet this new special affordable subgoal was demonstrated by Fannie Mae during 2001–2003, as Fannie Mae increased its special affordable performance from 14.9 percent of its single-family-owner business in 2001 to 16.3 percent in 2002 to 17.1 percent in 2003.

(3) *Disparities in Homeownership and Credit Access Remain.* There remain troublesome disparities in our housing and mortgage markets, even after the ''revolution in affordable lending'' and the growth in homeownership that has taken place since the mid-1990s. The homeownership rate for African-American and Hispanic households remains 25 percentage points below that of white households. Minority families face many barriers in the mortgage market, such as lack of capital for down payment and lack of access to mainstream lenders (see above). Immigrants and minorities—many of whose very-low-income levels will qualify them as special affordable—are projected to account for almost two-thirds of the growth in the number of new households over the next ten years. As emphasized in Appendix A, changing population demographics will result in a need for the primary and secondary mortgage markets to meet nontraditional credit needs, respond to diverse housing preferences, and overcome information and other barriers that many immigrants and minorities face. The GSEs have to increase their efforts in helping special affordable families—but so far they have played a surprisingly small role in serving minority first-time homebuyers. It is estimated that the GSEs accounted for 46.5 percent of all (both government and conventional) home loans originated between 1999 and 2001; however, they accounted for only 14.3 percent of home loans originated for African-American and Hispanic first-time homebuyers. A subgoal for special affordable home purchase loans should increase the GSEs' efforts in important sub-markets such as the one for minority first-time homebuyers.

(4) *There are ample opportunities for the GSEs to improve their performance.* Special affordable mortgages are available for the GSEs to purchase, which means they can improve their performance and lead the primary market in purchasing loans for these very-low-income borrowers. Sections B, C, and I of Appendix A and Section H of Appendix D explain that the special affordable lending market has shown an underlying strength over the past few years that is unlikely to vanish (without a significant increase in interest rates or a decline in the economy). The special affordable share of the home purchase market has averaged approximately 16 percent since 1996 and annually has been in the 15–17 percent range. Second, the market share data reported in Table A.30 of Appendix A demonstrate that there are newly originated loans available each year for the GSEs to purchase. The GSEs' purchases of single-family owner loans represented 61 percent of all single-family-owner loans originated between 1999 and 2002, compared with 52 percent of the special affordable loans that were originated during this period. Thus, half of the special affordable conforming market is not touched by the GSEs. As noted above, the situation is even more extreme for special sub-markets such the minority first-time homebuyer market where the GSEs have only a minimal presence. Between 1999 and 2001, the GSEs purchased only 33 percent of conventional conforming loans originated for minority first-time homebuyers, even though they purchased 57 percent of all home loans originated in the conventional conforming market during that period. But also important, the GSEs' purchases under the subgoal are not limited to new mortgages that are originated in the current calendar year. The GSEs can purchase loans from the substantial, existing stock of special affordable loans held in lenders' portfolios, after these loans have seasoned and the GSEs have had the opportunity to observe their payment performance. In fact, based on Fannie Mae's recent experience, the purchase of seasoned loans appears to be one useful strategy for purchasing goals-qualifying loans.

For the reasons given above, the Secretary believes that the GSEs can do more to raise the special affordable shares of the home loans they purchase on single-family-owner properties. This can be accomplished by building on efforts that the enterprises have already started, including their new affordable lending products aimed at special groups such as first-time homebuyers, their many partnership efforts, their outreach to inner city neighborhoods, their incorporation of greater flexibility into their underwriting guidelines, and their purchases of seasoned CRA loans. A wide variety of quantitative and qualitative indicators indicate that the GSEs' have the resources and financial strength to improve their special affordable performance enough to lead the market.

4. Size of the Overall Special Affordable Mortgage Market

As detailed in Appendix D, single-family and multifamily special affordable mortgages are estimated to account for 23–27 percent of the dwelling units financed by conventional conforming mortgages; in estimating the size of the market, HUD used alternative assumptions about future economic and market affordability conditions that were less favorable than those that existed over the past several years. HUD is well aware of the volatility of mortgage markets and the possible impacts on the GSEs' ability to meet the housing goals. Should conditions change such that the goals are no longer reasonable or feasible, the Secretary has the authority to revise the goals.

5. The Special Affordable Housing Goal for 2005–2008

The Special Affordable Housing Goal for 2005 is 22 percent of eligible purchases, a two percentage point increase over the current goal of 20 percent, with the goal rising to 23 percent in 2006, 25 percent in 2007, and 27 percent in 2008. The bonus points for small multifamily properties and owner-occupied 2–4 unit properties, as well as Freddie Mac's Temporary Adjustment Factor, will no longer be in effect for goal counting purposes. It is recognized that neither GSE would have met the 22-percent target for 2005 in the past three years. Under the new counting rules, Fannie Mae's special affordable performance is estimated to have been 18.6 percent in 1999, 21.7 percent in 2000, 20.1 percent in 2001, 19.4 percent in 2002, and 20.8 percent in 2003. Fannie Mae would have to increase its performance in 2005 by 1.9 percentage points over its average (unweighted) performance of 20.1 percent over these last five years. By 2008 this increase relative to average 1999–2003 performance would be 6.9 percentage points. Freddie Mac's performance is projected to have been 17.4 percent in 1999, 20.8 percent in 2000, 19.1 percent in 2001, 17.3 percent in 2002, and 19.0 percent in 2003. Freddie Mac would have to increase its performance in 2005 by 3.3 percentage points over its average (unweighted) performance of 18.7 percent over these last five years. By 2008 this increase relative to average 1999–2002 performance would be 8.3 percentage points. However, GSE goal performance in 2001–03 was reduced by the heavy refinance wave of this period.

The objective of HUD's Special Affordable Goal is to bring the GSEs' performance to the upper end of HUD's market range estimate for this goal (23–27 percent), consistent with the statutory criterion that HUD should consider the GSEs' ability to lead the market for each Goal. To enable the GSEs to achieve this leadership, the Department is establishing modest increases in the Special Affordable Goal for 2005, which will increase year-by-year through 2008, to achieve the ultimate objective for the GSEs to lead the market under a range of foreseeable economic circumstances by 2008. Such a program of staged increases is consistent with the statutory requirement that HUD consider the past performance of the GSEs in setting the Goals. Staged annual increases in the Special Affordable Goal will provide the enterprises with opportunity to adjust their business models and prudently try out business strategies, so as to meet the required 2008 level without compromising other business objectives and requirements.

Section C compared the GSEs' role in the overall market with their role in the special affordable market. The GSEs' purchases provided financing for 26,118,927 dwelling units, which represented 55 percent of the 47,551,039 single-family and multifamily units that were financed in the conventional conforming market between 1999 and 2002. However, in the special affordable part of the market, the 5,103,186 units that were financed by GSE purchases represented only 41 percent of the 12,413,759 dwelling units that were financed in the market. Thus, there appears to be ample room for the GSEs to improve their performance in the special affordable market. In addition, there are several market segments (*e.g.,* first-time homebuyers) that would benefit from a greater secondary market role by the GSEs, and special affordable borrowers are concentrated in these markets.

6. Multifamily Special Affordable Subgoals

Based on the GSEs' past performance on the special affordable multifamily subgoals, and on the outlook for the multifamily mortgage market, HUD is establishing that these subgoals be retained and increased for the 2005–2008 period. Unlike the overall goals, which are expressed in terms of minimum goal-qualifying percentages of total units financed, these subgoals for 2001–03 and in prior years have been expressed in terms of minimum dollar volumes of goal-qualifying multifamily mortgage purchases. Specifically, each GSE's special affordable multifamily subgoal is currently equal to 1.0 percent of its average total (single-family plus multifamily) mortgage volume over the 1997–99 period. Under this formulation, in October 2000 the subgoals were set at $2.85 billion per year for Fannie Mae and $2.11 billion per year for Freddie Mac, in each of calendar years 2001 through 2003. These represented increases from the goals for 1996–2000, which were $1.29 billion annually for Fannie Mae and $0.99 billion annually for Freddie Mac. These subgoals are also in effect for 2004.

HUD's Determination. The multifamily mortgage market and both GSEs' multifamily transactions volume grew significantly over the 1993–2003 period, indicating that both enterprises have provided increasing support for the multifamily market, and that they have the ability to continue to provide further support for the market.

Specifically, Fannie Mae's total eligible multifamily mortgage purchase volume increased from $4.6 billion in 1993 to $12.5 billion in 1998, and then jumped sharply to $18.7 billion in 2001 and $18.3 billion in 2002, and $33.3 billion in 2003. Its special affordable multifamily mortgage purchases followed a similar path, rising from $1.7 billion in 1993 to $3.5 billion in 1998 and $4.1 billion in 1999, and also jumping sharply to $7.4 billion in 2001 and $7.6 billion in 2002 and $12.2 billion in 2003. As a result of its strong performance, Fannie Mae's purchases have been at least twice its minimum subgoal in every year since 1997—247 percent of the subgoal in that year, 274 percent in 1998, 315 percent in 1999, 294 percent in 2000, and, under the new higher subgoal level, 258 percent in 2001, 266 percent in 2002, and 426 percent in 2003.

Freddie Mac's total eligible multifamily mortgage purchase volume increased even more sharply, from $0.2 billion in 1993 to $6.6 billion in 1998, and then jumped sharply in 2001 to $11.8 billion and $13.3 billion in 2002, and $21.5 billion in 2003. Its special affordable multifamily mortgage purchases followed a similar path, rising from $0.1 billion in 1993 to $2.7 billion in 1998, and also jumping sharply to $4.6 billion in 2001 and $5.2 billion in 2002, and $8.8 billion in 2003. As a result of its strong performance, Freddie Mac's purchases have also been at least twice its minimum subgoal in every year since 1998—272 percent of the subgoal in that year, 229 percent in 1999, 243 percent in 2000, and, under the new higher subgoal level, 220 percent in 2001, 247 percent in 2002, and 417 percent in 2003.

The Special Affordable Housing Multifamily Subgoals set forth in this rule are reasonable and appropriate based on the Department's analysis of this market. The Department's decision to retain the multifamily subgoal is based on the fact that HUD's analysis indicates that multifamily housing still serves the housing needs of lower-income families and families in low-income areas to a greater extent than single-family housing. By retaining the multifamily subgoal, the Department ensures that the GSEs continue their activity in this market, and that they achieve at least a minimum level of special affordable multifamily mortgage purchases that are affordable to lower-income families. The Department establishes each GSE's special affordable multifamily subgoal as 1.0 percent of its average annual dollar volume of total (single-family and multifamily) mortgage purchases over the 2000–2002 period. In dollar terms, the Department's subgoal is $5.49 billion per year in special affordable multifamily mortgage purchases for Fannie Mae, and $3.92 billion per year in special affordable multifamily mortgage purchases for Freddie Mac. These subgoals would be less than actual special affordable multifamily mortgage purchase volume in 2001–2003 for both GSEs; thus the Department believes that they would be feasible for the 2005–2008 period.

Some commenters advocated increasing the special affordable multifamily subgoals